

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1468 – SB 1685

February 6, 2018

SUMMARY OF BILL: Establishes the *Historic Structure Rehabilitation Act* (Act). Upon completion of a certified rehabilitation, entitles the owner to a refund equal to the total amount of state sales and use tax paid in conjunction with the owner's qualified rehabilitation expenditures incurred; provided, that: the owner uses the historic structure for at least one year following the completion of the certified rehabilitation, as the owner's primary residence or for commercial or mixed use purposes; the rehabilitation meets standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation, as certified by the Tennessee Historical Commission (Commission); and the certified qualified rehabilitation expenditures are made on or after July 1, 2018.

Requires the Commission to promulgate three forms to be submitted by an applicant: a form used to request designation of a property as a certified historic structure; a form used to request certification of a proposed rehabilitation as meeting the standards consistent with the standards of the Secretary of the United States Department of the Interior for rehabilitation; and a form used to request certification of a completed rehabilitation.

The owner of the historic structure may apply with the Commission for a refund certificate, which provides the amount of sales and use tax revenue collected in conjunction with the qualified rehabilitation expenditures incurred during the rehabilitation. Requires the Commission to promulgate rules, and authorizes the Commission to adopt a fee, not to exceed an amount reasonably calculated to offset the Commission's expense in administering the requirements of this Act.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$62,500/FY19-20 and Subsequent Years/Historical Commission

Decrease State Revenue – Net Impact –

\$651,800/FY19-20/General Fund

\$1,303,600/FY20-21 and Subsequent Years/General Fund

**Increase State Expenditures – \$62,500/FY19-20 and Subsequent Years/
Historical Commission**

Decrease Local Revenue – Net Impact – \$15,700/FY19-20

\$31,400/FY20-21 and Subsequent Years

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Other Fiscal Impact – Secondary economic impacts may occur as a result of this legislation. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- The first year in which tax credits will be awarded will be FY19-20.
- Based on information provided by the U.S. Department of the Interior, National Park Service, Technical Preservation Services, in the annual statistical reports, the annual average of total rehabilitation expenditures in Tennessee that qualified for the federal historic rehabilitation tax credit was estimated to be \$20,022,949 per year over the four-year time period running FY12-13 through FY15-16.
- This legislation will provide a refund to the owner of the historic structure, equal to all state sales and use taxes paid in conjunction with qualified rehabilitation expenditures incurred.
- Pursuant to Tenn. Code Ann. § 67-6-202, the state sales tax rate on personal tangible property is 7.0 percent. The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The refund earned per year pursuant to this legislation is estimated to be \$1,401,606 ($\$20,022,949 \times 7.0\%$).
- Due to the time required to complete the rehabilitation of a project, place the project in service, certify and review all qualified rehabilitation expenditures, and meet the one-year use requirement, the impact in the first year (FY18-19) is estimated to be negligible. It is further estimated that in the second year (FY19-20), the impact will be equal to 50 percent of the first full year impact, or \$700,803 ($\$1,401,606 \times 50\%$).
- The decrease in state sales tax revenue is estimated to be \$675,455 [$(\$700,803 - (\$700,803 \times 3.617\%))$] in FY19-20 and \$1,350,910 [$\$1,401,606 - (\$1,401,606 \times 3.617\%)$] in FY20-21 and subsequent years.
- The decrease in local revenue attributed to the state-shared allocation is estimated to be \$25,348 ($\$700,803 \times 3.617\%$) in FY19-20 and \$50,696 ($\$1,401,606 \times 3.617\%$) in FY20-21 and subsequent years.
- Fifty percent of the state sales tax refunds paid back to qualified applicants will be expended in the economy generating additional state and local sales tax collections.
- The average local option sales tax rate is estimated to be 2.5 percent;
- An increase in state sales tax revenue of \$23,641 [$(\$700,803 \times 50\% \times 7\%) - (\$700,803 \times 50\% \times 7\% \times 3.617\%)$] in FY19-20; and \$47,281 [$(\$1,401,606 \times 50\% \times 7\%) - (\$1,401,606 \times 50\% \times 7\% \times 3.617\%)$] in FY20-21 and subsequent years.
- An increase in local sales tax of \$9,647 [$(\$700,803 \times 50\% \times 2.5\%) + (\$700,803 \times 50\% \times 7\% \times 3.617\%)$] in FY19-20; and \$19,294 [$(\$1,401,606 \times 50\% \times 2.5\%) + (\$1,401,606 \times 50\% \times 7\% \times 3.617\%)$] in FY20-21 and subsequent years.
- The net decrease in state sales tax revenue as a result of this legislation is estimated to be \$651,814 ($\$675,455 - \$23,641$) in FY19-20; and \$1,303,629 ($\$1,350,910 - \$47,281$) in FY20-21 and subsequent years.

- The net decrease in local sales tax revenue as a result of this legislation is estimated to be \$15,701 (\$25,348 - \$9,647) in FY19-20; and \$31,402 (\$50,696 - \$19,294) in FY20-21 and subsequent years.
- Based on past information provided by the Tennessee Historical Commission, the Commission will require one additional position to administer the proposed program. This employee will: review documents to determine if they are fully completed, accurate and compliant with the established standards; work closely with the Commission's federal tax credit reviewer in order to ensure that projects using both the state and federal tax credit programs are in agreement; review plans and specifications; work with architects and property owners; make site visits; attend meetings; speak at public events about the program; and respond to inquiries from the public and other stakeholders.
- The recurring increase in the Commission's expenditures associated with this position, beginning in FY19-20, is estimated to be \$62,495 (\$38,460 salary + \$10,693 benefits + \$2,942 FICA + \$10,400 travel, supplies and materials, and other).
- The Commission will set application and certification fees at rates sufficient to offset the cost of administering the program. The recurring increase in the Commission's revenue, beginning in FY19-20, is estimated to be \$62,495.
- Any impact on revenue as a result of additional projects that will be undertaken only as a direct result of this legislation that would not be completed under current law would be considered forgone revenue. Due to multiple unknown factors, the extent of forgone revenue cannot be quantified with reasonable certainty.
- Secondary economic impacts may occur as a result of this legislation. Such impacts may be reflected as additional private capital investment leveraged by the proposed state sales and use tax refunds, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this legislation, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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